

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the First Quarter of 2000 to the Fourth Quarter of 2003**

This year promises to be another banner one for the Idaho economy, with growth topping last year's surprisingly strong showing. The seasonally adjusted final data show that Idaho nonfarm employment expanded at a healthy rate of 3.4% in 1999, which was more than twice as strong as the 1.6% growth that had been forecasted in January of that year. The current forecast calls for the number of nonfarm jobs in the Gem State to advance 3.6% in 2000.

Most of this growth should come in the first half of this year. Job growth is already off to a strong start. Preliminary evidence shows that Idaho nonfarm employment increased at a 5.8% annual rate in the first quarter of this year—its strongest showing in recent history. Leading this charge was the goods-producing sector, which added jobs at a 9.2% annual pace. The services-producing sector's employment rose at a 4.9% annual rate in the first quarter. Most of this boost was in this sector's trade, services, and construction components. Some of the first quarter's strength reflected unusual seasonal factors that probably accelerated hiring this year. Thus, hiring that would have taken place later in the year has already taken place. This, along with the slowing national economy, should cause Idaho nonfarm employment growth to cool in the second half of this year.

Idaho's recent economic strength can also be seen in the personal income numbers. In April 2000, the U.S. Bureau of Economic Analysis' reported that Idaho nominal personal income increased 8.0% in 1999, which was its strongest showing since 1990. Readers should note that some of this increase reflects a huge upward revision to Idaho personal income. Specifically, the 1999 estimate was increased by over \$1.5 billion. Three components played a major role in this change.

The biggest revision was in dividends, interest, and rent, which was boosted nearly \$1.3 billion. This change reflects the revised treatment of government retirement plans. The interest and dividends received from these plans are now included in the dividends, interest, and rent component of personal income. This component is further boosted by the inclusion of dividends paid by S-corporations. Previous estimates do not include these contributions. The second biggest change was in farm proprietors' income which was increased by \$474 million. It reflects a change in the historical data. Earlier estimates of farm proprietors' income were based on data that underestimated milk prices. After incorporating more current price data, the 1998 estimate of Idaho farm proprietors' income was raised \$266 million. Much of this data has been extrapolated into the 1999 estimate. Thus, the 1999 estimate will be revised early next summer when the raw data become available. Third, the other labor income portion was increased \$456 million. This change also reflected the new treatment of government retirement plans. The new treatment of government retirement plans contributed to the combined reduction of nearly \$850 million in 1999 of the government transfers and social insurance categories of Idaho personal income.

As is the case with the U.S. economy, Idaho's growth is expected to slow over the forecast period. Specifically, Idaho annual nonfarm employment growth should average about 2.4% after this year. This will be about twice as fast as national employment is projected to grow. After rising 7.3% in 2000, Idaho nominal personal income should average about 6.0% growth per year through 2003. This will be about one-half percentage point higher than is expected at the national level.

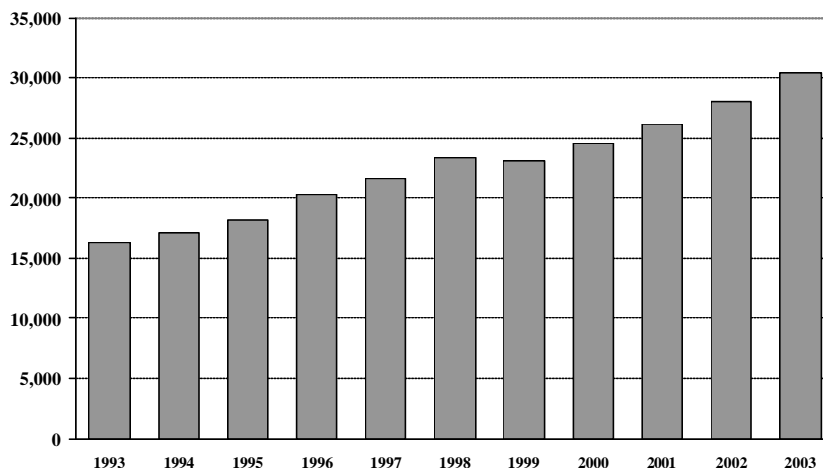
## SELECTED IDAHO ECONOMIC INDICATORS

### Electrical and Nonelectrical Machinery:

The outlook for Idaho's electrical and nonelectrical machinery sector is bullish. This assessment reflects the anticipated strong showing in real spending for office equipment and software. Specifically, real domestic spending on equipment and software is forecast to jump 23.7% this year. Investment growth should taper off during the forecast period, but still be at double-digit levels in 2003. In addition, the economic recovery in Asia should further fuel the demand for electronic

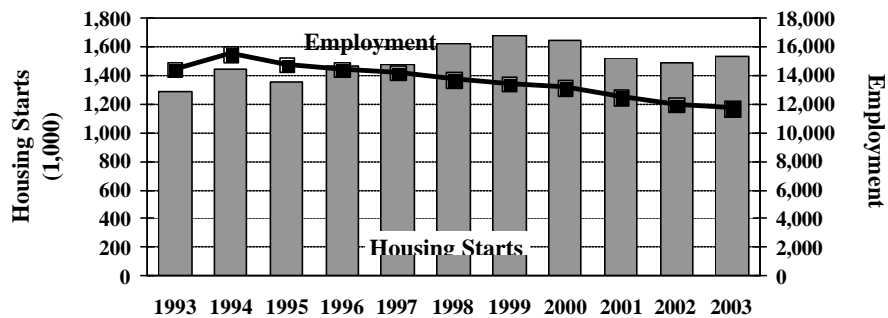
components. As a result of this sustained growth, the output for this sector should advance at above-average rates. This change appears to have already started. Micron Technology, a world-class manufacturer of computer memory products, reported in its most recent earnings report that semiconductor sales increased over 30% from the previous quarter thanks to stronger shipments. Micron's ability to turn a profit with low market price reflects its position as the world's lowest cost manufacturer of memory products. Higher prices should return when the strong demand sops up the excess capacity that has recently bedeviled this industry. Data from recent years show how quickly capacity has grown. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Other Gem State high-tech companies are also looking forward to a brighter future. Less than a year after opening the doors of its new Treasure Valley plant, Jabil Circuit, Inc. has announced plans to double its manufacturing space. Company officials explain that the expansion is in response to anticipated industry growth. This move will also add up to 700 new jobs over the next few years. This would boost employment to about three times its initial level. Jabil began its Idaho operations about two years ago when it acquired the assets (and employees) of Hewlett-Packard's former manufacturing operations. The sale of these assets reflected Hewlett-Packard's strategy to refocus the Boise site's mission towards research and development and away from manufacturing. As a result of that move, Hewlett-Packard's employment in Idaho has been relatively stable in recent years. This is a big change from its early 1990's heyday, when the site's employment rose above 5,000, as the company struggled to keep up with demand for its hugely successful LaserJet printers. Since then, employment at the site has settled to about 4,000. Idaho electrical and nonelectrical manufacturing employment is expected to rise 5.9% in 2000, 6.5% in 2001, 7.5% in 2002, and 8.2% in 2003.

### Idaho Electrical & Nonelectrical Employment



**Lumber and Wood Products:** Employment in the state's lumber and wood products sector is expected to continue to decline over the forecast period. Potlatch Corporation temporarily reduced its work force by 340 employees in June 2000. These workers were recalled in July 2000. The company has announced it will let go of 140 salaried workers this summer. In 1993, the number of jobs in this sector peaked at 15,520. Since then, this sector has suffered annual employment declines. Specifically, from 1994 to 1998, this sector's collective payroll has shrunk by nearly 1,800 positions, with a 500-person drop in 1998 alone. These declines were especially disappointing given the strong U.S. housing market. Despite soaring demand, lumber prices fell. This paradox reflects export markets. U.S. exports

## Idaho Lumber & Wood Products Employment and U.S. Housing Starts



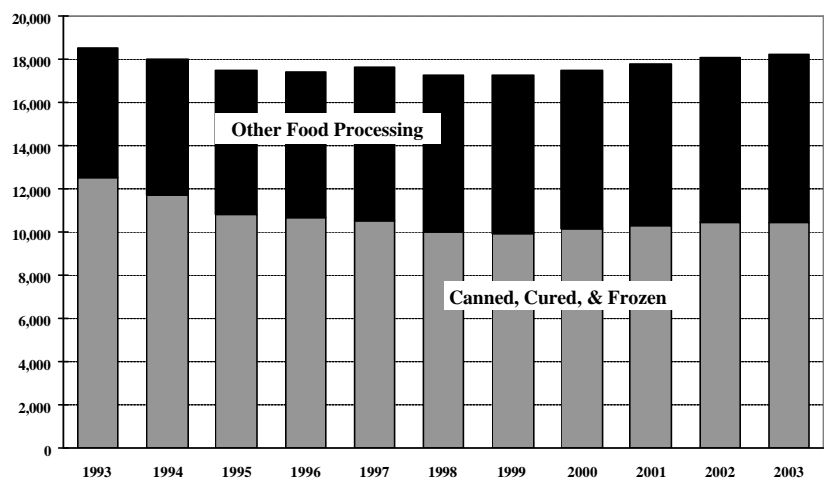
Sources: Standard and Poor's DRI and DFM

in 1998 totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market awash in supply—and, accordingly, prices declined. Unfortunately, excess supply may be a structural, not a

cyclical, problem because of the industry's excess capacity. For example, one estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. This excess capacity will continue to exert negative pressure on prices. The longer term presents its own set of problems. Most notably, employment in the lumber and wood products industry will be constrained by the uncertainties concerning the timber supply from federal forests. According to U.S. Forest Service records, the harvest from Idaho national forests has declined steadily from 810.2 million board feet in 1989 to 239.8 million board feet in 1998. The impact of this reduction is not only measured in lost jobs, but in reduced federal government payments to Idaho local governments. These payments in lieu of taxes have fallen with the harvest. For example, from federal fiscal year 1998 to 1999, the distribution of funds to Idaho forest communities dropped by nearly \$5 million, or about 40%. Gem State lumber and wood products employment should slide 1.7% in 2000, 5.1% in 2001, 4.2% in 2002, and 2.2% in 2003.

**Food Processing:** Idaho's huge food processing sector is forecast to add employees gradually over the forecast period. This is a welcome relief from the recent past in which this important industry's employment base actually shrank. Over 1,000 jobs were lost from 1993 to 1999. While some of this loss was due to business downturns, other factors also played a significant role. For example, J.R. Simplot Company closed one of its two Caldwell, Idaho processing plants during this period. Between 300 and 400 jobs were lost as a result

## Idaho Food Processing Employment



of this closure. Another Gem State food processing player, Ore-Ida, reduced its headquarters' staff by about 100 after it sold its food service division to Canadian food processing giant McCain Foods, Ltd. Unfortunately, this was not that last reduction by Ore-Ida. Approximately 400 Idaho jobs were lost in 1999 when H.J. Heinz Company consolidated Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into the new Heinz Frozen Food Company based in Pittsburgh. Last year was a transition year, when employment stabilized. Barring any unforeseen setbacks, employment should begin growing slowly this year. The state's dairy sector will play a key role in the future. The Salmon

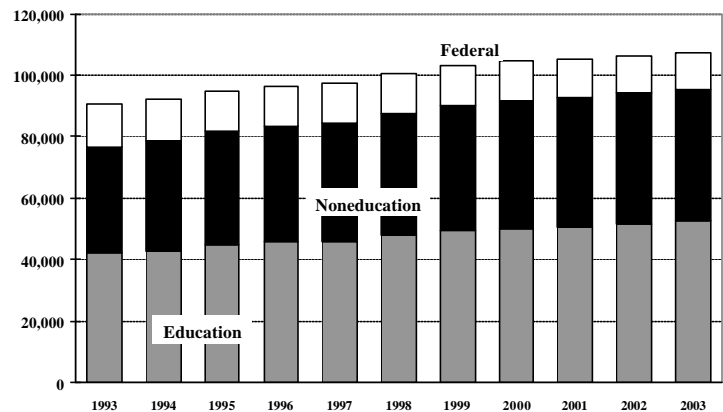
Valley Cheese Factory plans to produce 10 million pounds of cheese annually beginning this summer, and production could expand further in the near future. Glanbia, Inc. recently completed a \$33 million expansion to its Gooding cheese processing plant. This facility employs over 200 workers and is capable of processing six million pounds of milk per day. Land O' Lakes also completed a huge expansion to its feed-processing plant in Gooding. Specifically, Idaho food processing employment should advance 0.6% in 2000, 1.7% in 2001, 1.7% in 2002, and 0.7% in 2003.

### **Federal, State, and Local Governments:**

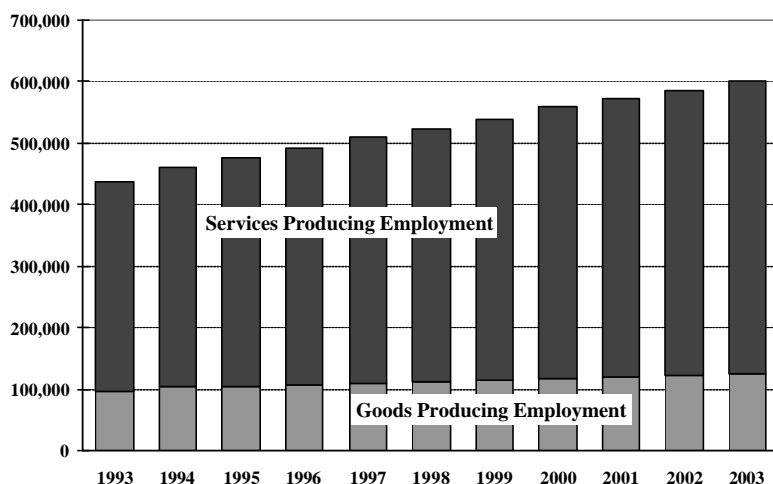
Idaho's state and local government employment growth should slow considerably compared to the pace experienced during the first half of the 1990s. Fueled by a rapidly expanding economy and above-average population increases during that period, Idaho local government units struggled to keep up with the climbing demand for services. As a result, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade, which was more than twice the national average. But even at this quick pace, all levels of government

were hard pressed to meet the needs of a population that grew as much as three times as fast as its national counterpart. The early 1990s surge in population growth was caused by an influx of newcomers into the state. This occurred because Idaho's economy continued to grow in the early 1990s, while other state's economies faltered. For example, during the 1990-92 period Idaho nonfarm employment rose by 31,300 (8.1%) compared to a loss of 356,300 jobs (-2.5%) in California. As the gap between Idaho's growth rate and other states' rates narrow, net migration into the state should slow, and so should overall population growth. Indeed, the current forecast calls for the state's population growth rate to recede from 1.8% in 2000 to 1.4% in 2003. But this is not the only factor that will limit Idaho state and local government job growth. A state law that caps local government budgets should also keep a lid on government employment gains. This year's growth rate will also be impacted by a series break in the education-related employment data. The Idaho Department of Labor recently detected a data problem that inflated this sector's employment by 2,000 persons. In order to correct this problem, the Department of Labor reduced this employment number by 2,000 beginning in January 2000. As a result of this adjustment, the decline from the last quarter of 1999 to the first quarter of 2000 is exaggerated, and the 1999 to 2000 year-to-year growth is underestimated. Idaho state and local government employment is forecast to increase 0.9% in 2000, 2.0% in 2001, 1.8% in 2002, and 1.7% in 2003. Nationally, state and local government employment is anticipated to rise 1.8% in 2000, 1.7% in 2001, 1.2% in 2002, and 1.0% in 2003. Federal government job increases in Idaho will be hard pressed to match even these reduced growth rates. In fact, this category should see its employment decline from 12,834 in 1999 to 12,065 in 2003. The hiring of Census 2000 workers should provide a pause from this downward trend, but this respite will be temporary. By the second half of this year, Idaho federal employment should resume its downward trend.

**Idaho Government Employment**



## Idaho Nonfarm Employment



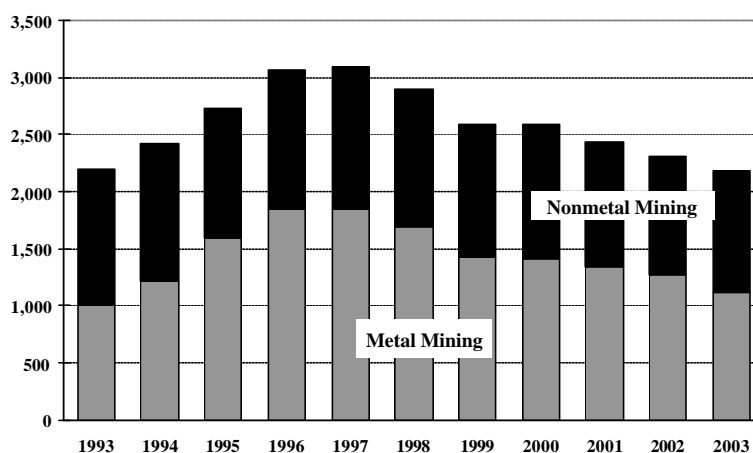
### Services-Producing Industries:

The giant services-producing sector should remain the state's employment growth pacesetter over the forecast period. This diverse sector accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, the remainder still accounts for over 60% of all jobs. One component of the service sectors

that has enjoyed stellar growth recently has been communications. Communication employment advanced an astounding 18.6%, thanks in large part to the opening of several new call centers around the state. One of the most pleasing aspects of this growth is how diverse this growth has been. GTE order-processing center in North Idaho, the Carlson Leisure Group call center in the Treasure Valley, and Convergys Call Center in Bannock County. Another source of growth has been business services. This component added nearly 3,000 jobs last year. Part of this increase reflects persons who are contract employees at manufacturing firms. Although they perform manufacturing tasks, they are employed by employment agencies and are counted as business services employees. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. Overall, services-producing employment is projected to increase 3.6% in 2000, 2.6% in 2001, 2.7% in 2002, and 2.5% in 2003.

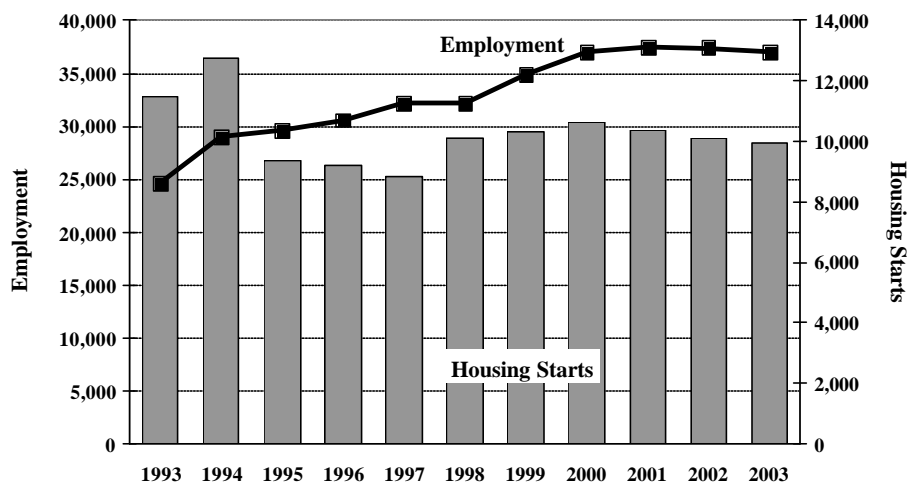
**Mining:** Idaho mining employment should experience a much-welcomed pause this year after suffering heavy losses in both 1998 and 1999. Weighed down by setbacks in its metal mining component, total mining employment dropped by about 200 jobs in 1998 and another 320 jobs in 1999. That represents declines of over 6.0% in 1998 and 11.0% in 1999. It is important to note that mining activity is highly localized, so these reductions have had significant impacts in the communities where they occurred. This battered industry's most recent round of woes was due in large part to the Asian economic crises that depressed worldwide commodity prices. For example, lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The Delemar Mine in Owyhee County fell victim

## Idaho Mining Employment



to low gold prices. However, not all the recent setbacks are due to cyclical factors. For example, some reductions reflect mines coming to the end of their economic lives. The most notable example is Meridian Gold's Beartrack Mine in Lemhi County. After processing nearly 50 million tons of ore and waste, the state's champion gold mine is expected to wind down its operations. This move was no surprise; it was widely known that this mine would last about seven years. After a much-needed breather, the state's mining industry will face future challenges. The expected flattening of the local construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Until prices improve significantly, acreage reductions remain probable, and this could reduce fertilizer demand. This will affect companies in Southeast Idaho where phosphorus ore is mined and fertilizer is manufactured. Mining employment should drop from about 2,600 and 2,200 over the forecast period.

### Idaho Construction Employment and Housing Starts



**Construction:** Construction employment growth should taper off after this year as Gem State housing activity flattens. This growth engine will be missed. A look at the recent past reveals the important role this sector has played in the current expansion. Construction employment was just above 13,000 in 1983, as the U.S. economy climbed out of recession. It took off briefly to about 15,000 in 1985, but retreated to 13,721 in 1987. In 1988, the current recovery took off in earnest. It started

slowly at first, with employment growing by just 3.5% in 1988. After this austere beginning, Idaho housing starts increased an astounding 40.2% from 1988 to 1989. This was just the first installment of a six-year run of double-digit growth. By 1994, Idaho housing starts stood at 12,700 units, which were almost four times 1988's 3,334 starts. The boom resulted from Idaho's strong population growth during that period. Because of the dearth of housing starts in the early 1980s, the construction industry found itself in catch-up mode during most of the boom period. This helps explain why there was no serious housing inventory overhang as population growth subsided in the late 1990s. Housing starts did slip 26.7% in 1995, however. Despite this drop, there were still 9,362 starts in 1995. It should also be noted that while housing starts fell in 1995, construction employment continued to grow, reflecting the strength of the nonresidential building sector. Since 1995, construction employment levels have hovered around 32,000, which is more than twice as high as in 1987. Idaho housing starts are forecast to remain near 10,000 units. Construction employment is forecast to hover around 37,000 over the forecast period.